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**It is the paper published as:**

**Author:** K. Sharma

**Title:** Labour standards and WTO rules: Survey of the issues with reference to child labour in South Asia

**Journal:** Journal of Economic Issues     **ISSN:** 0021-3624

**Year:** 2009

**Volume:** 43

**Issue:** 1

**Pages:** 29-41

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**CRO Number:** 10452

# **Labor Standards and WTO Rules: Survey of the Issues with Reference to Child Labor in South Asia\***

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## **Abstract**

Some developed countries have sought to counteract what they see as unfair competition faced by their domestic industries arising from the employment of child labor in the production of consumer goods in developing countries by including a “social clause” in the WTO charter. Many people and civil society organizations in developed countries are also genuinely concerned with child labor employment purely on humanitarian grounds. In this paper we have argued that a more appropriate approach to tackle the child labor problem would be to facilitate acceleration of growth in developing countries through greater, not less, integration of these countries into the world trading system. We have also argued that directing development assistance for improving institutions and social infrastructure would be more effective than trade sanctions.

JEL Classification codes: F13, F16, J6 and J88

Key Words: Labor standards, child labor, WTO rules, trade sanctions, South Asia

\* I am grateful to two anonymous referees for very constructive comments and suggestions, which significantly improved the quality of the paper. I am also grateful to Geoff Bamberry, Prema-chandra Athukorala, Edward Oczkowski and Yapa Bandara for carefully reading the revised paper and providing useful suggestions.

# **Labor Standards and WTO Rules: Survey of the Issues with Reference to Child Labor in South Asia**

## **I Introduction**

Developing countries as a group have experienced spectacular growth since the late 1980s, mainly brought about by rapid export expansion. Export expansion in developing countries has, however, triggered a protectionist response in developed countries. Protectionist groups in the West argue that due to poor labor standards in developing countries, including child labor practices, they are unable to compete with these countries in labor-intensive products. The view that countries with poor labor standards obtain inherent comparative advantage in international trade and investment has been widely propagated in international forums. On the other hand, there are others who are genuinely concerned about the poor working conditions in developing countries. These two groups are increasingly demanding international intervention from the same platform (Basu 1999).

While poor labor standards in developing countries have been well-known for decades, they have brought a great deal of attention in recent years, particularly in the West. Although health and safety, and welfare of working children are real issues, growing international pressure for improving labor standards appears to be motivated by protectionist sentiment (Srinivasan 1996). This protectionist sentiment has received added impetus from substantial multilateral tariff reductions as part of their commitments under the World Trade Organization (WTO) despite a significant decline in child labor in developing countries. According to the International Labor Organization (ILO 1996a) the incidence of child labor fell from 27% to 13% between 1950 to 1995 period and is expected to fall to 8% by 2010.<sup>1</sup>

As pressure for improving labor standards has increased, the demand for the inclusion of a “social clause” in the WTO Charter has been more intense.<sup>2</sup> Such a clause would require WTO members to accept certain core labor standards, including prevention of child labor, or face trade sanctions. The proponents of trade sanctions, however, have failed to realize that labor market dysfunction, poverty and economic underdevelopment are the roots of the problem, and they must be addressed if labor standards are to be improved (Palley 2002; Neumayer and De Soya 2005). Their arguments rest on the assumption that when trade sanctions are exercised developing countries are forced to improve labor standards and the demand for child labor declines. However, trade sanctions will fail to achieve its purpose unless deep and widespread poverty in developing countries is addressed. This means there must be enough adequately paid jobs for adult workers, so that they are able to feed their children and send them to school rather than to work. Also, when there is a complete ban on child labor, incomes of poor households relying on earning from children fall, which puts pressure on demand for loans from these families. However, in the absence of perfect credit markets in developing countries their ability to borrow is severely limited. Even if credit markets do exist, the poor will not have collateral security to obtain loans, forcing them to earn income through other means.<sup>3</sup> Also, as the access to schools is limited especially for the children of poor households, trade sanctions will not increase the school attendance rate unless families are compensated for sending their children to school and the access to schooling is made easier. Obviously, trade sanctions will fail to achieve the purpose for which they are implemented.

The purpose of this paper is to contribute to this debate using the experience of South Asian countries.<sup>4</sup> The examination of South Asian experience is particularly relevant because about

40% of the world's working children are found in this region, and the incidence of child labor varies significantly between the countries in the region.

The paper proceeds as follows. Section II discusses how developed countries might exercise the WTO rules to raise labor standards in developing countries, while the survey of the issues with reference to child labor in South Asia is presented in Section III. Section IV discusses how the international community can help address child labor problem in developing countries. The paper concludes in Section IV with concluding remarks.

## **II Trade, Child Labor and WTO Rules**

Globalization of production, brought about by reductions in trade and investment barriers, together with the development in transport and communication, have encouraged developing countries to enter export markets, particularly in labor-intensive consumer goods, where low labor costs give them a competitive advantage. As labor-intensive exports from developing countries have increased, competing industries in developed countries have faced strong competition, leading to the call for trade barriers on goods produced using exploited labor, particularly those produced by child labor (Liang 2007). The form of these barriers has included a demand for improved labor standards in developing countries through the inclusion of clauses in the WTO Charter, and the outlawing of child labor, particularly for the production of export goods.

An example of this was the call to impose sanctions through the inclusion of a “social clause” at the Uruguay Round of trade negotiations in Marrakesh in 1994. However, this did not occur, as a majority of nations felt that there was no need for the WTO to intervene in this

area. Despite this, labor standards continued to be brought to international forums, and in 1996, at the Declaration of the First Ministerial Conference of the WTO held in Singapore, developed countries succeeded in including the core labor standards in the WTO official document by arguing that promotion of such standards can overcome labor market distortions and improve economic efficiency (Leary 2006).<sup>5</sup> These core labor standards included the following:

- Freedom of association.
- Recognition of the right to collective bargaining.
- The elimination of all forms of forced or compulsory labor.
- The effective abolition of child labor.
- The elimination of discrimination in respect of employment and occupation.

Although recognition of the right to collective bargaining and the elimination of forced or compulsory labor are as (if not more) serious untoward labor market practices as the employment of child labor, surprisingly some developed countries have focused mainly on the latter. For instance, protectionist groups began a campaign for the use of the label ‘Rugmark’ to indicate that children were not involved in the production of carpets, and this has been relatively successful. In addition, human right organizations and NGOs have sought to base their arguments for imposing sanctions on social grounds, including protecting children from the more severe effects of child labor such as, health and safety issues.<sup>6</sup>

When core labor standards were included in the First Ministerial Declaration of the WTO in 1996, many representatives of developing countries thought that this was in their interests, as it recognized the role of ILO in handling labor standard issues. However, they soon realized

the protectionist motives behind such a move, enabling developed nations to use GATT/WTO rules to protect their markets (Leary 2006; Rao 2006). For example, Article VI of the GATT provided for the right of a contracting party to apply anti-dumping measures if imports caused injury to its domestic industry. According to Finger and Winters (2002, 242) anti-dumping measures have been employed by industrialized countries as a major means of protecting their industries and are gaining popularity, with over 150 anti-dumping cases having been reported to GATT/WTO each year since the mid 1980s. The inclusion of core labor standards in the WTO official document enables developed countries to take safeguard action against imports from countries with poor labor standards using Article XIX of the GATT on the ground that such imports are causing or likely to cause, serious injury to the industries.<sup>7</sup> The possible use of anti-dumping and safeguard measures by developed countries on the grounds of poor labor standards in developing countries can not be ruled out, although penalizing a country based on these grounds is not currently allowed under the WTO rules (Brown et al. 2001).

### **III. Child Labor in Developing South Asia**

Table 1 shows the regional distribution of economically active children throughout the world. It indicates that about 60 percent of the world's working children are found in the Asia-Pacific region. South Asia has one of the highest incidences of child labor, though this varies significantly across countries. For instance, the percentage of child workers in a country's child population ranges from seven percent in Bangladesh to 31 percent in Nepal (Table 2). Nepal's high incidence of child labor appears to be linked to the decade-long civil war which hit the country in the mid 1990s. The war resulted in economic dislocation, leading to the loss of jobs among many in the adult workforce (Adam and Brunner 2003).<sup>8</sup> This in turn led to

poverty, which resulted in many children having to take on low-paid jobs, often in what is referred to as “the worst forms of child labor.” India also has a high incidence of child labor (about 14 percent) despite its relatively strong economic performance in recent years, high per capita income and low illiteracy rate, suggesting that a threshold level of income and sustained economic growth is crucial for the elimination of child labor practices (see Table 2).<sup>9</sup>

\*Insert Table 1 about here\*

\*Insert Table 2 about here\*

Like Bangladesh, Pakistan also has a lower incidence of child labor—about eight percent. These two countries have relatively low incidences despite high illiteracy rates, in contrast to the expectation that high illiteracy would be associated with a high proportion of child labor. This would seem to indicate that the causes of child labor are not simply the result of high rates of illiteracy, but are associated with more complex economic bases. Some countries have recognized this, and have developed policies and institutions to address dysfunctional labor market and underdevelopment. For example, attempts have been made in Bangladesh and Pakistan to implement institutional arrangements to remove children from the workforce, and to provide alternative arrangements to enable them to continue their education and training so that they can eventually enter the paid adult workforce. Similar attempts have also been made in Nepal and in Tamil Nadu State in India, but they have not been as successful as in Bangladesh and Pakistan in the absence of effective enforcement of laws.<sup>10</sup>

\*Insert Table 3 about here\*



The incidence of child labor tends to be higher among boys than girls in Bangladesh and Pakistan, while in Nepal and India it is the reverse (Table 3). Lower workforce participation for girls in Islamic countries such as Bangladesh and Pakistan appears to be due to the fact that girls tend to work in the household sector—an aspect of child labor not fully captured by national statistics.

All in all, the available evidence supports the view that rather than threatening developing countries with trade sanctions in order to prevent perceived unfair competition arising from child labor, the developed countries would be more likely to achieve their objectives by helping them in strengthening their institutional arrangements to eliminate child labor and addressing economic underdevelopment. Evidence collected in a number of South Asian countries indicates that the root cause of child labor is poverty arising from economic underdevelopment, forcing poor families to send their children to work in order to obtain income for basic family necessities.

### ***Policies and Institutional Arrangements***

The governments of South Asian countries have generally recognized the need for direct intervention to tackle child labor practices and have argued that this cannot be left to NGOs or international agencies alone. A range of plans, policies and programs have been implemented (Herath and Sharma 2007). These range from broad integrated plans such as the National Policy and Plan of Action to Combat Child Labor in Pakistan (Munir and Mangi 2007), and the Ten Year Action Plan for Children in Nepal (Nepal 2007). The National Policy and Plan of Action to Combat Child Labor in Pakistan includes long-term objectives such as full implementation of the law on the eradication of child labor, universal primary education,

and expansion of social security, as well as short and medium-term objectives. The former include awareness raising, community mobilization, analysis of the situation, and withdrawing children from the worst forms of child labor, while the latter include institutional capacity building, strengthening inspection services, and providing education and training for working children. Similarly, in Nepal, the long-term plan has been divided into a number of five-year plans to indicate priorities that need to be dealt with in a series of stages.

However, there is a need for better co-ordination across the various agencies involved, greater input of financial and human resources for the programs, particularly staff resources, and more appropriate education and training facilities for children withdrawn from child labor, especially those affected by the worst forms of child labor. While most of the plans include proposals to strengthen the institutions charged with the responsibility for enforcing existing laws, it is recognized that there is still a need for improved training for staff, especially those involved in regulatory roles requiring legal knowledge.

Significant programs that have been implemented in Pakistan and Bangladesh are the income-generating schemes for poor families that help to lift them out of poverty, removing the need for them to rely on income from child labor for survival (Munir and Mangi 2007; Hasan 2007). The provision of additional and improved educational facilities has been one of the key policies for the reduction of child labor in South Asia, particularly in Pakistan and Bangladesh. It has been argued that provided parents have enough income to feed their families, and as the provision and quality of schools improve, they will be encouraged to keep their children at school in the expectation of a higher future income for their children upon completion of school (Bachman 2000). Linking schooling with part-time work for older

children has been found to be an effective policy in Pakistan, Bangladesh and some other developing countries, as it supplements family income and helps poor families afford the costs associated with education.

Even where families can afford to keep their children at school, factors such as the availability and quality of education are important in influencing parents to encourage their children to complete their schooling, and in influencing children to stay at school. This includes the adequacy of the facilities, the quality of the teachers, and the appropriateness of the curriculum in meeting the current interests and future needs of the students in terms of preparation for work, or for further education and training (Bamberry 2007). Policies need to be implemented effectively to discourage children from leaving school early for the above reasons, as otherwise, they risk being caught in the poverty trap.

A commonly-used, but often under-funded program, is one that seeks to rehabilitate children who have been involved in lengthy periods of child labor. It has been found that there needs to be appropriate education and training facilities to re-integrate these children into schools, or to provide suitable alternative education and training to prepare them for future work. It is often inappropriate to return these children to the schools they left, as the classrooms no longer meet the requirements of their age, life experiences and future needs (Bamberry 2007). Access to good-quality, appropriate education and training is therefore a significant element in contributing to breaking the vicious cycle and creating a positive one that lifts these children out of poverty.

One of the most well conceived programs implemented in a number of South Asian countries has been to seek to remove children from work environments that are potentially dangerous

to their health and safety, especially where they are exposed to dangerous chemicals in the early stage of their lives. Such conditions can lead to the early death of children or chronic health problems for the rest of their lives, resulting in considerable suffering and loss of productivity over the long term.

It is pertinent in this context to review the history of improving labor conditions, including the elimination of child labor, in the developed countries. For example, in the United States government intervention in these areas was crucial. In the nineteenth and early twentieth century, American workplaces made use of child labor, were unsafe and unhealthy, wages were low, and workers were exploited. Over time, legislation and institutions were introduced, which outlawed child labor, improved workplace standards, and encouraged firms to enhance productivity by innovation rather than exploitation. Improved productivity resulted in higher incomes for adult workers which reduced reliance on incomes from children and enabled them to buy what they produced (Palley 2002). Higher wages also helped reduce inequalities in wealth and income, and reduced conflict in the society, leading to improved peace and harmony. In most of the European countries, however, a reduction in child labor in the nineteenth century was largely brought about by higher incomes and technological change rather than law enforcement (Ravallion and Woden 2000). It could be argued that legislations to improve working conditions may have encouraged technology change in developed countries, leading to the reduction in child labor practices.

#### **IV. How Can the International Community Assist?**

By now it is well-understood that deep and widespread poverty perpetuates child labor in developing countries. The alleviation of poverty needs to be the initial focus of the international community as a starting point for the elimination of child labor which will lead to a more level playing field in the international market. This will require assistance in the area of social infrastructure, and in improving the quantity and quality of schools, as these can help improve labor standards in the long-run. Evidence suggests that higher rates of education permit the poor to access high wage paying jobs and thereby improve labor standards (Berg and Krueger 2003; Bhagwati 2004). To this end, development assistance for improving the quality and quantity of schools, and encouraging poor households to send their children to schools through programs such as targeted subsidies and meals for children attending school would be particularly useful.<sup>11</sup> Grootaert and Kanbur (1995) have suggested neoclassical-styled incentives aimed at shifting relative returns to families in a way that makes school more attractive than child labor. In this context, targeted cash subsidies are particularly useful and address the problems associated with imperfect credit markets in developing countries by balancing the current cost of moving a child out of labor force and into school with a current grant (Udry 2003). For example, in Mexico when cash grants were offered to mothers of school attending children, the incidence of child labor declined significantly. Similar experience was also documented in Bangladesh when it introduced the Food for Education program for school attending children (Ravallion and Wodon 2000).

Developing countries also need assistance to strengthen their institutions for effective implementation of labor legislation and rules. Better institutions are crucial to ensure higher labor standards and sustain economic growth in the long-run. While strengthening law

enforcement agencies and institutions is crucial in raising core labor standards, the problems of working children will not be addressed unless poverty and underdevelopment are addressed. So, institution development and poverty alleviation must go hand in hand.

The developed countries also need to look more closely at ways to provide assistance through their trade policies. One approach would be to improve market access for the products of developing countries. This would help stimulate economic development, increase adult wages over time, which in turn reduces reliance on earnings from child labor. In the long-run however, greater market access should be linked to gradual improvements in labor standards. The ILO is a competent authority to monitor labor standards and it should work closely with the WTO in handling trade disputes relating to labor standards. In this regard, the ILO needs some assistance to strengthen its monitoring mechanism. In addition to ILO, the International Monetary Fund (IMF), the World Bank and regional development banks must also officially promote core labor standards through their assistance programs and countries must meet these standards to receive assistance. Palley (2002) has suggested that country assistance strategies, which guide lending programs of the World Bank and regional development banks, should focus on core labor standards as currently done for environmental impact. Under no circumstances should trade sanctions be used as a means for improving labor standards.

As Krueger (1996) argues, the greater integration of developing countries into the world trading system would improve labor standards and these improved working conditions would, over time, eliminate child labor and gradually level the playing field in terms of competition in trade and investment. In this context, Vietnam's experience is worth noting. When Vietnam made attempts to remove barriers to rice exports in 1990s, labor standards improved

and the incidence of child labor fell largely due to a rise in household incomes brought about by higher export prices for rice (Edmonds and Pavcnik 2005). Clearly, global integration of developing countries into the world trading system provides enormous opportunities for improving labor standards and this should be promoted. Neumayer and De Soya (2005, 59) observe, “globalization is likely to represent a promise, not a threat, for the eradication of child labor across the globe . . . our results do warn against policy recommendations for using trade or investment restrictions as a sanction mechanism to penalize countries that export goods with some contribution of child labor.”

## **V. CONCLUSION**

This paper contributes to the ongoing debate about the use of trade sanctions against countries with poor labor standards, including child labor, as a means of reducing unfair trade practices. While the health and safety, and welfare of working children are often put forward as the reason for implementing trade sanctions, punishing countries on the ground of child labor practices would be grossly ineffective unless poverty and underdevelopment are addressed. This would require more, not less integration of these countries into the world trading system. It has been argued that directing development assistance towards improving institutions and social infrastructure, as well as towards increasing access to schooling for poor families would be a better strategy. In addition, it is important to ensure that incomes of poor families do not fall substantially when children are out of work. The Bangladeshi experience suggests that a complete ban on child labor practices would be counter productive, unless poverty and underdevelopment are addressed. Directing development assistance towards improving quality and quantity of schools, and towards providing meals for school attending children have also been found to be successful strategies. Also, linking part-time

work to schooling appears to be an effective way of reducing child labor, as evidenced in Bangladesh and Pakistan.



## ENDNOTES

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- <sup>1</sup> According to the International Labour Organization (ILO) anyone under the age of 15, engaged in economic activity regardless of occupation, is considered as child labor.
- <sup>2</sup> A “social clause” has been defined as a clause that aims at improving labor conditions in exporting countries by allowing trade sanctions against exporting countries who fail to observe minimum standards (Leary 1996). According to Jagdish Bhagwati and Robert E. Hudec (1996) major supporters for including a “social clause” in the WTO charter are governments from European countries and the United States as well as non-governmental organization (NGOs), human right organizations, trade unions, and workers’ organizations. Maskus (1997) also discusses this issue in detail.
- <sup>3</sup> For an excellent discussion of how credit constraints can contribute to child labor practices in developing countries, see Ranjan (1999; 2001), Boland and Robinson (2000), and Jafarey and Lahiri (2002).
- <sup>4</sup> We focus on Bangladesh, India, Nepal and Pakistan as child labor is more serious in these countries than in other South Asian countries such as Bhutan, Maldives and Sri Lanka.
- <sup>5</sup> USA threatened not to sign the Declaration if it did not include core labor standards.
- <sup>6</sup> In addition to child labor, reformists are also concerned with poor working conditions and forced labor practices in developing countries. However, child labor has received more international publicity in recent years (Hudec and Bhagwati 1996; Bhagwati 2004).
- <sup>7</sup> For a detail discussion on GATT Articles VI and XIX, see the WTO website <http://www.wto.org>.
- <sup>8</sup> Sharma (2006) documents the causes of civil war in Nepal.
- <sup>9</sup> Krueger (1996) has demonstrated that the incidence of child labor declines only when per capita income reaches beyond US\$5,000.
- <sup>10</sup> See Sharma (2007) for a detail description of laws concerning the employment of children in South Asia.
- <sup>11</sup> Despite a need for greater development assistance in addressing poverty and underdevelopment in developing countries, there has been a sharp decline in such assistance to Least Developed Countries. This has dropped by 46% in real per capita terms during 1990 to 2000 periods (UNCTAD 2003, 32).

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**TABLES:**

Table 1: Regional Estimates of Economically Active Children (Ages 5-14), 2000

Region	Number of children (in millions)	Work ratio (%)
Developed economies	<b>2.5</b>	<b>2</b>
Transition economies	2.4	4
Asia and the Pacific	127.3	19
Latin America and Caribbean	17.4	16
Sub-Saharan Africa	48.0	29
Middle East & North Africa	13.4	15
<b>Total</b>	<b>211</b>	<b>18</b>

Source: ILO (2002)

Table 2: Economic and Social Indicators of South Asian Countries

Country	Total Population in millions (2004)	Average annual Population growth rate (%) (1990-2004)	GDP Growth (%) (2000-2004)	Per Capita GDP (US\$) (PPP 2005)	Illiteracy Rate 2000-2004	Child Labor, 1999-2004 (5-14 years)
Bangladesh	141.8	2.1	5.2	2,011	59	7
India	1,103.3	1.8	5.8	3,344	39	14
Nepal	27.1	2.4	3.2	1,675	51	31
Pakistan	163.9	2.3	4.0	2,628	51	8

Source: Illiteracy and child labor data are from the UNICEF website available at

<http://www.unicef.org/infobycountry/> and other come from the World Bank (2004).

Table 3: Distribution of economically active children 5-14 years old by sex in selected South Asian countries

	Economically active (Total)	Boys	Girls
<b>Bangladesh<sup>(a)</sup></b>	<b>6130000</b>	5047442	1082558
		(82.34)	(17.66)
Urban	680347	66753	56633
Rural	5449653	437991	1025925
<b>India<sup>(b)</sup></b>	<b>23160000</b>	9850000	13310000
		(42.5)	(57.47)
Urban	999710	1302674	696298
Rural	22160290	8547326	12613702
<b>Nepal<sup>(c)</sup></b>	<b>278000</b>	138000	140000
		(49.64)	(50.36)
Urban	12000	8000	4000
Rural	266000	130000	136000
<b>Pakistan<sup>(d)</sup></b>	<b>3313420</b>	2431992	881428
		(73.4)	(26.6)
Urban	367745	321634	46111
Rural	2945675	2110358	853317

**Note:** Figure in parenthesis represent percentage share.

Source: (a) ILO (1996b) and BBS (2003); (b) NSSO (2001); (C) Suwal, KC and Adhikari (1997); and (d) Federal Bureau of Statistics (1996).